

1                                   **COMMONWEALTH OF MASSACHUSETTS**  
2                                   **DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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4                                   **NSTAR ELECTRIC STANDBY RATES**

5                                   D.T.E. 03-121

6                                   March 16, 2004

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8                                   **DIRECT TESTIMONY OF EDWARD A. DAVIS**

9                                   **on behalf of**

10                                  **WESTERN MASSACHUSETTS ELECTRIC COMPANY**  
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12   **Q.     Please state your name, business address and position.**

13   A.     My name is Edward A. Davis. My business address is 107 Selden Street, Berlin, CT 06037.

14   I am the Manager of Pricing Strategy and Administration for Northeast Utilities Service Company,

15   which provides centralized administrative services to Northeast Utilities' affiliates, including

16   Western Massachusetts Electric Company ("WMECO" or the "Company").

17   **Q.     What are your responsibilities with the Company in this position?**

18   A.     I am responsible for activities related to rate design, cost-of-service analysis and rates

19   administration for WMECO.

20   **Q.     Describe your educational background and professional experience.**

21   A.     I graduated from the University of Hartford with a Bachelor of Science degree in

22   Electrical Engineering in 1988, and from the University of Connecticut with a Master of

23   Business Administration degree in 1997. I have also attended numerous electric industry and

24   professional education programs. Since joining the Northeast Utilities system in 1979 I have

25   held a number of analytical, engineering, customer-related and management positions, with

26   both staff and field responsibilities in the areas of consumer economics, customer operations,

27   wholesale and retail marketing, and state and federal rates, regulation and administration.

1 **Q. Have you previously testified before any regulatory agency on standby rates**  
2 **issues?**

3 A. Yes, I have presented testimony before the Connecticut Department of Public Utility  
4 Control in Docket Nos. 92-11-11 and 99-03-36.

5 **Q. What is the purpose of your testimony?**

6 A. The purpose of my testimony is to support of the general principles and general  
7 application relating to standby rates set forth in the rate proposal submitted by NSTAR  
8 Electric in this docket, and to emphasize also that while the general principles may apply  
9 broadly there are differences among electric companies that should be recognized. Therefore,  
10 any order in this proceeding should recognize WMECO's different history and rate structure  
11 and not bind WMECO to a particular outcome without examining those differences in a  
12 WMECO-specific proceeding.

13 **Q. Please describe the Company's interests specifically as they relate to its**  
14 **standby and supplemental rates.**

15 A. WMECO is keenly interested in the design and administration of the Company's rates  
16 for standby and supplemental electric service to its customers who operate generating facilities  
17 and require standby or supplemental service. These facilities range in size and type, and  
18 generally operate either as stand-alone generation or to serve a portion of a customer's total  
19 load requirements. The Company is also interested in the potential impacts of alternate rate  
20 designs on its current and future customers.

21 **Q. Have you reviewed the direct testimony of Henry C. LaMontagne for NSTAR**  
22 **Electric in this proceeding?**

23 A. Yes I have.

24 **Q. Please discuss the NSTAR Electric testimony as it relates to the Company's**  
25 **standby ratemaking concerns?**

1 A. The Company supports the ratemaking principles presented in Mr. LaMontagne's  
2 testimony, and supports the general approach taken in applying those principles to the  
3 development of standby rates. Given the evolution of the Company's own rates, which has  
4 followed a path of cost-based ratemaking specific to it and the standby customers it serves, it is  
5 important to recognize that a new generation of technology is emerging. Newly introduced  
6 standby rate structures should be tested against appropriate policy goals in order to assure  
7 equitable rates.

8 **Q. What are appropriate policy goals?**

9 A. The goals presented in Mr. LaMontagne's testimony<sup>1</sup> provide definitive guidelines  
10 against which rate structures should be tested. Among the most important of those goals are  
11 those of assuring that cost responsibility follows cost causation and that cost shifting be  
12 avoided in any movement to a more competitive market. WMECO emphasizes that these  
13 fundamental principles must apply when assessing the appropriateness or need to change  
14 current rates, or when new rates are introduced.

15 **Q. Why are these principles important now?**

16 A. While it is clear that the Department of Telecommunications and Energy  
17 ("Department") has relied on these principles in establishing the various tariff structures for  
18 the utilities under its jurisdiction, it is also important to note that a new rate for standby  
19 service has not been introduced in Massachusetts for some time.

20 **Q. Does WMECO have a standby rate now?**

21 A. Yes. WMECO currently provides standby service under a specific standby rate (Rate  
22 PR), and also under general service rates.

23 **Q. What is WMECO's concern then?**

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<sup>1</sup> Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company d/b/a NSTAR Electric, Exhibit NSTAR-HCL-1, page 10, lines 18-25.

1 A. WMECO's Rate PR is closed to new customers by Department order. As the potential  
2 for new generation increases, it may be necessary to revisit WMECO's standby rates both for  
3 the existing and new standby service customers that it would serve. In much the same way as  
4 the Department will issue an order on NSTAR Electric's proposed standby rates, the Company  
5 would anticipate that its rates for standby service would similarly be addressed in any future  
6 ratemaking process in the context of WMECO's unique standby customer mix, cost  
7 characteristics and overall rate structures.

8 **Q. Can you comment on the specifics of the principles espoused in NSTAR**  
9 **Electric's testimony?**

10 A. Yes. WMECO believes that the approach to rate design in the proposal submitted by  
11 NSTAR Electric includes a number of important elements that appropriately reflect the unique  
12 service needs of standby service customers and equitably assign cost to this class of service.  
13 For firm service, the NSTAR Electric's proposal applies existing rates as a starting point that,  
14 among other factors, recognizes the aspects of rates that apply to any distribution customer of  
15 a service class having similar service characteristics, including customers who require standby  
16 service. The proposal further serves to assign proper cost responsibility by delineating fixed  
17 and variable costs. Fixed cost responsibility is additionally refined to recognize the unique,  
18 standby nature of this customer class through use of a contract demand. The concept of no  
19 contract demand for non-firm, interruptible service reflects a reduced level of distribution  
20 delivery assurance that a customer may be willing to accept, but that continues to recover the  
21 remaining fixed and variable costs associated with the non-firm service provided. Combining  
22 standby and supplemental service with crediting provisions during months of actual deliveries  
23 ensures that the total service to customers taking a combination of standby and supplemental  
24 service is provided at rates that fulfill the Department's ratemaking goals.

1 **Q. Should the Department establish uniform standby rates as a result of this**  
2 **proceeding?**

3 A. No. As noted in Mr. LaMontagne's testimony <sup>2</sup> standby and supplemental service rate  
4 structures and the timing of when rate changes are to be made vary by utility. Moreover, the  
5 current mix of customers and categories of service within which they take standby service  
6 varies by company. It is in the interest of rate continuity for the customers of any company to  
7 move toward any new rate structure gradually and on the basis of appropriate principles. The  
8 Company thinks that the principles applied in the development of NSTAR Electric's rate  
9 design are sound and that this proceeding should establish their application as the basis for  
10 affirming or amending WMECO's current rate structures in the future.

11 **Q. Please summarize the key principles that you believe the Department should**  
12 **consider in establishing standby rates for each utility.**

13 A. The key principles are: (1) start with common service characteristics of an otherwise  
14 applicable rate; (2) recognize the fixed costs of standby service via a firm contract demand; (3)  
15 recognize transmission service requirements and other unbundled components of rates; and (4)  
16 integrate the application of standby and supplemental service for customers in a manner that  
17 places the appropriate cost responsibility, for rates that are based on cost causation, on each  
18 service or rate class. Taking a principled approach to WMECO's standby rate design, rather  
19 than force-fitting its rates into a different structure, helps assure that broader principles such  
20 as fairness and continuity are applied in implementing changes to the Company's standby  
21 rates.

22 **Q. Does this conclude your testimony?**

23 A. Yes.

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<sup>2</sup> *Id.*, page 6.